MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Coty's CFR to Ba3; outlook stable

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New York, March 20, 2018 -- Moody's Investors Service, ("Moody's") downgraded Coty Inc.'s ("Coty") Corporate Family Rating ("CFR") to Ba3 from Ba1 and Probability of Default Rating to Ba3-PD from Ba2-PD. Moody's also downgraded Coty's senior secured term loans to Ba2 (LGD3) from Ba1 (LGD2). Moody's affirmed the company's SGL-3 Speculative Grade Liquidity Rating.

At the same time Moody's assigned a Ba2 (LGD3) rating the proposed 1st lien senior secured credit facilities being issued by Coty Inc. Proceeds from the new credit facilities will be used to refinance existing secured debt at Coty Inc. and at Galleria Co. ("Galleria"), add to existing cash balances, and pay transaction fees and expenses. Existing ratings on debt that is being repaid at Coty Inc. and Galleria will be withdrawn upon close of the transaction. The outlook on all ratings is stable.

The downgrade of the CFR reflects Coty's very slow progress at deleveraging following the 2016 acquisition of Procter & Gamble Beauty ("P&G Beauty"). Coty took on a significant amount of debt to acquire the P&G Beauty assets. It then continued to make partially debt-finance acquisitions, and pay high cash dividends ($375 million over the past year) despite facing operating challenges in its business. Together, Coty's actions have stressed its financial profile to a degree where a Ba1 CFR is no longer appropriate. Moody's estimates that Coty's 2018 debt to EBITDA will reach a high of 6.8x, and remain high over the next year. The rating agency expects near-term leverage reduction to be hampered by low organic earnings growth. Coty is in the midst of restructuring its operations to restore growth and improve operating performance.

The Ba2 rating on the senior secured debt is one notch higher than the Ba3 Corporate Family Rating. This reflects Moody's expectation that Coty will add a meaningful amount of unsecured debt to the capital structure within the near term. Should that not occur, Moody's will likely downgrade the senior secured debt to Ba3, the same level as the Corporate Family Rating.

The stable rating outlook reflects Coty's weak -- albeit improving -- operating performance and its high financial leverage.

The following is a summary of Moody's rating actions:

Downgrades:

Issuer: Coty Inc.

Probability of Default Rating, Downgraded to Ba3-PD from Ba2-PD

Corporate Family Rating, Downgraded to Ba3 from Ba1

Senior Secured Bank Credit Facility, Downgraded to Ba2 (LGD3) from Ba1 (LGD2), to be withdrawn at close

Issuer: Galleria Co.

Senior Secured Bank Credit Facility, Downgraded to Ba2 (LGD3) from Ba1 (LGD2), to be withdrawn at close

Assignments:

Issuer: Coty Inc.

Senior Secured Bank Credit Facility, Assigned Ba2 (LGD3)

Affirmations:

Issuer: Coty Inc.

Speculative Grade Liquidity Rating, Affirmed SGL-3

Outlook Actions:

Outlook, Changed To Stable From Negative on both issuers

RATINGS RATIONALE

Coty's Ba3 CFR reflects the company's high debt to EBITDA financial leverage, estimated at about 6.7x, and weak free cash flow. Moody's expects Coty to generate negative free cash flow over the next several quarters in part due to its high capital spending, restructuring costs, and dividends. The rating also reflects the company's concentration in fragrance and color cosmetics. This concentration creates exposure to discretionary consumer spending. It also requires continuous product and brand investment to minimize revenue volatility as these categories tend to be more fashion driven than other beauty products. Coty will remain more concentrated than its primary competitors in mature developed markets. This creates growth challenges and investment needs to more fully build its global distribution capabilities and brand presence.

The ratings are supported by the company's large scale, its portfolio of strong brands, and good product and geographic diversification. Moody's expects that Coty will generate modest revenue and organic earnings growth in the next 12-18 months. Earnings growth will benefit from synergies related to the P&G Beauty acquisition. The company estimates that it will reach $750 million in synergies through 2020 (after $1.2 billion in upfront costs).

The SGL-3 Speculative Grade Liquidity Rating reflects Moody's view that Coty's liquidity is adequate. The proposed secured credit facility will be subject to a total net leverage financial covenant with step downs. Moody's projects that the company will maintain good headroom under the total net leverage covenant over the next 12 months.

Coty's CFR is weakly positioned at the Ba3 level due to its very high financial leverage. Coty's ratings could be downgraded if operating performance does not improve such that that the company generates positive operating earnings and free cash flow. A downgrade could also occur if the company does not make meaningful progress to in reducing debt to EBITDA below 6.0x. A downgrade could also occur if there is a deterioration in the company's liquidity or if the company pursues material debt funded acquisitions or shareholder returns.

Coty's ratings could be upgraded if it generates sustained organic operating profit growth, and improves credit metrics. Specifically, debt / EBITDA would need to be sustained below 5.0x before Moody's would consider an upgrade.

The principal methodology used in these ratings was Global Packaged Goods published in January 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Coty Inc. ("Coty"), a public company headquartered in New York, NY, is one of the leading manufacturers and marketers of fragrance, color cosmetics, and skin and body care products. The company's products are sold in over 130 countries. The company generates roughly $9.2 billion in annual revenues.

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